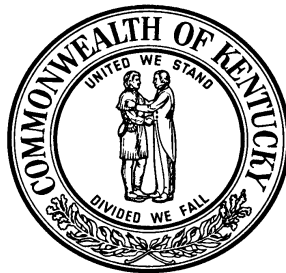


**REPORT OF THE AUDIT OF THE
FORMER MARSHALL COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MARSHALL CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Marshall County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$45,897 from the prior year, resulting in excess fees of \$242,560 as of December 31, 2010. Revenues increased by \$659,967 from the prior year and expenditures increased by \$614,070.

Report Comment:

2010-01 The Former Marshall County Clerk Paid Employees \$16,300 In Bonuses At The End Of 2010

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, Marshall County Judge/Executive
The Honorable Dianne McKendree, Former Marshall County Clerk
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Marshall County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2011 on our consideration of the former Marshall County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Mike Miller, Marshall County Judge/Executive
The Honorable Dianne McKendree, Former Marshall County Clerk
Members of the Marshall County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former Marshall County Clerk Paid Employees \$16,300 In Bonuses At The End Of 2010

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Marshall County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

May 10, 2011

MARSHALL COUNTY
 DIANNE MCKENDREE, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Fees For Services	\$	10,171
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 1,237,470	
Usage Tax	3,055,853	
Tangible Personal Property Tax	3,078,869	
Lien Fees	19,478	

Other-

Fish and Game Licenses	3,357	
Marriage Licenses	7,349	
Deed Transfer Tax	62,237	
Delinquent Tax	616,526	8,081,139

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	33,390	
Real Estate Mortgages	52,548	
Chattel Mortgages and Financing Statements	78,593	
Powers of Attorney	1,721	
Affordable Housing Trust	41,952	
All Other Recordings	29,402	

Charges for Other Services-

Postage	4,120	
Candidate Filing Fees	1,960	
Copywork	4,834	248,520

Other:

Return Check Fee	475	
Miscellaneous	907	1,382

Interest Earned		4,332
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Total Revenues		8,345,544
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The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
 DIANNE MCKENDREE, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 879,207

Usage Tax 2,962,567

Tangible Personal Property Tax 1,057,839

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,245

Delinquent Tax 76,849

Legal Process Tax 30,390

Notary Fees 92

Affordable Housing Trust 41,952 \$ 5,052,141

Payments to Fiscal Court:

Tangible Personal Property Tax 245,591

Delinquent Tax 42,827

Deed Transfer Tax 58,694 347,112

Payments to Other Districts:

Tangible Personal Property Tax 1,652,263

Delinquent Tax 310,859 1,963,122

Payments to Sheriff 52,855

Payments to County Attorney 83,420

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 442,142

Contracted Services-

Leased Equipment 3,394

Advertising 6,247

Printing and Binding 6,438

Computer Programming 18,452

Materials and Supplies-

Office Supplies 13,164

Equipment Maintenance and Repair 1,700

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
 DIANNE MCKENDREE, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	\$	4,410
Dues		1,320
Postage		13,460
Refunds		3,689
Miscellaneous		16
		<u>514,432</u>
Capital Outlay-		
Office Equipment		<u>2,950</u>
Total Expenditures	\$	<u>8,016,032</u>
Net Revenues		329,512
Less: Statutory Maximum		<u>81,540</u>
Excess Fees		247,972
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>1,812</u>	<u>5,412</u>
Excess Fees Due County for 2010		242,560
Payments to Fiscal Court - February 23, 2011		<u>230,573</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>11,987</u></u>

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Non hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Marshall County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former Marshall County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Lease Agreement – Copier

In October 2010, the Marshall County Clerk's Office renewed a lease agreement with Xerox Corporation for a copier. The agreement requires monthly payments of \$93 for 36 months. The principle balance remaining on the lease as of December 31, 2010 is \$3,146. The former Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2010.

Note 5. Lease Agreement – Postage Meter

During 2010, the Marshall County Clerk's Office entered into a lease agreement with Great American Leasing for a postage meter. The agreement requires monthly payments of \$197 and renewable annually. The former Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2010.

Note 6. Professional Service Agreements

A. Indexing

The Marshall County Clerk has a software license agreement with Software Management for indexing. The agreement requires an annual fee of \$12,994 and is renewable annually. The former Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2010.

B. Delinquent Tax

The Marshall County Clerk has a software license agreement with Data Records Management Services (DRMS) for delinquent taxes. The agreement requires an annual fee of \$3,958 and is renewable annually. The former Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, Marshall County Judge/Executive
The Honorable Dianne McKendree, Former Marshall County Clerk
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Marshall County Clerk for the year ended December 31, 2010, and have issued our report thereon dated May 10, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Marshall County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Marshall County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2010-01.

The former Marshall County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the former County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Marshall County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 10, 2011

COMMENT AND RECOMMENDATION

MARSHALL COUNTY
DIANNE MCKENDREE, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

The Former Marshall County Clerk Paid Employees \$16,300 In Bonuses At The End Of 2010

The former Marshall County Clerk paid all employees an extra paycheck on November 24, 2010 equal to 80 hours of their base pay. According to the Department for Local Government's budget manual under section labeled "Handling Public Funds, Minimum Requirements Pursuant To KRS 68.210, For All Local Government Officials (And Employees)", bonuses, prepayment for goods or services, nor any other contributions are NOT an appropriate expense of the government unless the fee official as implemented an incentive program under the guidelines of the administrative code. However, there was no evidence that these payments were for any extra effort or extra duties performed by these employees. It appears that these payments may have been made as bonuses. We recommend that the county clerk's office discontinue this practice in order to be in compliance with the Department for Local Government's budget manual.

Former County Clerk Dianne McKendree's Response: "This policy has been changed."

